

**MINUTES OF MEETING  
KENTUCKY PUBLIC PENSIONS AUTHORITY  
AUDIT COMMITTEE  
AUGUST 26, 2025, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the August 26, 2025, Regular Meeting of the Audit Committee of the Kentucky Public Pensions Authority, the following Committee members were present: William O'Mara (Chair), George Cheatham, Lynn Hampton, and William Summers V. Attending on behalf of KRS, Mary Eaves. Attending on behalf of CERS, J. T. Fulkerson. Staff members present were CERS CEO Ed Owens III, KRS CEO John Chilton, Ryan Barrow, Erin Surratt, Mike Lamb, Michael Board, Nathan Goodrich, Stephanie Hold, Kristen Coffey, Madeline Evans, William Prince, Zachary Curtis, James Westbay, Ashley Gabbard, Phillip Cook, Sherry Rankin, and Sandy Hardin.

1. Mr. O'Mara called the meeting to order.
2. Mr. Board read the Opening Video Teleconference Statement.
3. Ms. Rankin called roll.
4. Ms. Rankin noted no *Public Comments* were received.
5. Mr. O'Mara introduced the agenda item *Approval of May 29, 2025, KPPA Audit Committee Minutes. (Video 00:06:25 to 00:17:59)*. A motion was made by Ms. Hampton and seconded by Mr. Summers V to approve the May 29, 2025, minutes. The motion passed unanimously.

Ms. Eaves referenced a note from the May 29, 2025, meeting minutes indicating that approval of the February 25, 2025, minutes had been tabled due to concerns regarding language describing the Investment Policy review. Specifically, the minutes referred to the review being conducted by "the CEO," whereas Ms. Eaves suggested that the terminology should be revised to reflect either "CEOs" or "Executive Director" for

accuracy. Ms. Rankin presented the redlined version of the February 25, 2025, minutes, and the Committee agreed to defer approval to the November 18, 2025, meeting to allow members additional time to review the proposed changes.

6. Mr. O'Mara introduced agenda item ***Financial Reporting Updates*** (Video 00:17:59 to 00:24:54). Mr. Lamb provided an overview of the engagement letter between KPPA and Eide Bailly, the firm selected through the RFP process to conduct the audit of the Annual Comprehensive Financial Reports (ACFRs) for the CERS and KRS systems. He highlighted key elements from the engagement letter, which outlined the auditor's responsibilities. These include:

- Identifying and assessing the risks of material misstatement in the financial statements
- Obtaining an understanding of KPPA's internal control system
- Evaluating the appropriateness of accounting policies
- Concluding, based on audit evidence, whether conditions or events exist that may impact KPPA's status as a going concern.

He also reviewed management's responsibilities, which include ensuring the accuracy of financial statements, maintaining the internal control system, and making necessary adjustments for any material misstatements.

Mr. Lamb reported that Eide Bailly conducted on-site interviews the previous week and reviewed KPPA's control systems. The audit of both the KRS and CERS systems is now fully underway, with final reports expected later in the year.

Mr. O'Mara inquired whether KPPA remains on track to meet the required deadlines for the ACFR and state reporting. Mr. Lamb confirmed that the process is on schedule, and he does not anticipate any delays in meeting the established deadlines.

Ms. Lynn Hampton inquired whether Mr. Lamb had any insight into the use of internal audit in the current audit engagement compared to prior years. Mr. Lamb responded that, to his understanding, KPPA did not utilize internal audit in prior years, and there are no

plans to do so in the current audit to mitigate any substantive testing performed by the external auditors.

Mr. Lamb presented the unaudited financial statements generated by the new software system used to produce the Annual Comprehensive Financial Reports (ACFRs). He noted that these statements, dated June 30, 2025, for both the CERS and KRS systems, include comparative columns for Fiscal Years 2024 and 2025 and reflect each of the pension and insurance plans. Mr. Lamb emphasized that the statements have not been audited and have received minimal, if any, review by him or his team prior to being presented to the Audit Committee.

Ms. Hampton inquired whether any changes between the current unaudited statements and the final audited versions would be explained to the Committee. Mr. Lamb responded that he would be happy to highlight any significant reclassifications or material changes to the financials when the audited statements are presented. However, he does not anticipate any changes unless an error or misstatement is identified during the audit process.

7. Mr. O'Mara introduced agenda item ***Legal Updates*** (Video 00:24:54 to 00:30:54).

***Information Disclosure Incidents:*** Mr. Nathan Goodrich presented the quarterly report on Information Disclosure Incidents. A total of eleven (11) disclosures or breaches were investigated during the reporting period.

One (1) incident implicated HIPAA/HITECH regulations. This was a cybersecurity breach involving an external vendor that affected 1,491 members. The vendor responded by notifying the affected members and offering credit and identity theft monitoring services. KPPA was satisfied with the vendor's response, and no further action was required by KPPA regarding this violation.

Seven (7) incidents fell under KPPA's Data Disclosure Notification Policy. Of these, three (3) were due to human error and one (1) was caused by a machine error, which resulted in an individual member's information being sent to another member. KPPA followed up on these incidents by requesting affidavits from the recipients to confirm

they did not access or attempt to access the information and that it was properly disposed of.

Two (2) incidents involved unauthorized attempts to change direct deposit information. KPPA's security measures successfully intercepted both attempts, and no financial loss occurred for the affected members.

Three (3) incidents were determined not to be disclosures or breaches.

Mr. Goodrich opened the floor for questions. Mr. Cheatham inquired about the type of vendor involved in the HIPAA/HITECH breach. Mr. Goodrich clarified that the vendor was a subcontractor for Humana, related to health insurance services.

Ms. Hampton asked whether steps were being taken to prevent similar breaches in the future. Mr. Goodrich confirmed that the vendor is cooperating with law enforcement and implementing additional security measures to reduce the likelihood of recurrence.

Ms. Eaves asked what happens if the affidavit is not returned. Mr. Goodrich explained that KPPA also notifies the affected member of the disclosure and the steps taken. If there is no response, the matter is written off, and the member is informed that no affidavit was received. He added that many disclosures are discovered because the receiving member contacts KPPA directly, and they are typically cooperative in providing the affidavit.

Ms. Eaves then asked whether there is any requirement that mandates obtaining an affidavit. Mr. Goodrich responded that there is no such requirement. These incidents are generally internal policy violations and not governed by HIPAA or state law, so they are handled according to KPPA's internal procedures.

***Anonymous Tips:*** Ms. Stephanie Hold presented an update on anonymous fraud tips. Since the last Audit Committee meeting in May, KPPA received one (1) new fraud tip, which is currently being investigated by the Office of Legal Services. Currently, six (6) cases remain open, with two (2) of those involving employer reporting, one (1)

involving an allegation of disability retirement fraud, and three (3) are prearranged agreement allegations. Two (2) fraud cases have been closed since the last meeting. One (1) of the cases involved employee reporting, and after we initially assisted, ERCE took the lead on working with the employer for those contributions. The other tip was closed after obtaining documentation that did not support the allegation that the member failed to adhere to a break in service.

8. Mr. O'Mara introduced the agenda item ***KPPA Audit Committee Administrative Updates*** (Video 00:30:54 to 00:47:36).

- a. ***Internal Audit Budget as of June 30, 2025:*** Mr. Prince presented the Internal Audit Budget as of June 30, 2025. He began by drawing attention to the computer equipment line item, which showed no expenditures in the prior fiscal year's budget. Beginning in May 2025, the KPPA IT team engaged in weekly communication with a third-party vendor to obtain a renewal invoice. The invoice was received in mid-June; however, it did not accurately reflect the services utilized by KPPA. The third-party vendor contacted the software company to request a corrected invoice. That corrected invoice was not received until July. As a result, the payment of \$14,469.10 was made in the first quarter of Fiscal Year 2026. Although the charge pertained to software usage during the prior fiscal year, it does not appear in the FY 2025 budget. If this charge been included, actual expenses would have been 15.29% under budget.

Ms. Hampton inquired whether an adjustment would be made to recognize the expense in FY 2025. Mr. Lamb responded that the amount was likely not material enough to warrant a retroactive adjustment. Therefore, it would be reflected in the FY 2026 actuals. Mr. Lamb clarified that such accruals are not made for administrative expenses. Accruals are performed for employer contributions and benefit payments due to their significantly larger amounts. The administrative budget, however, is managed on a cash basis.

Mr. Prince reported that the only other variance within the budget was found in the dues and subscriptions category. This overage was due to an underestimation of membership dues, resulting in an excess of \$120 above the projected cost.

b. ***Status of Current Internal Audit Reports:*** Ms. Coffey provided an overview of the Internal Audit team's current and completed audits and various projects for Fiscal Year 2025. All projects for the fiscal year were completed, with the exception of two. The first outstanding item pertains to the inventory observation audit, which was delayed due to shifting priorities among non-audit staff. The necessary information was received approximately two weeks ago, and the audit is currently in progress. The second item, the employer audit review, has been deferred to Fiscal Year 2026 and is now included in the audit plan for that year.

Ms. Coffey also reviewed audits that exceeded their time budgets by more than ten percent. No new items were added to this list, as all have been discussed in prior meetings; however, she offered to revisit any of them upon request. She presented data comparing scheduled hours to actual hours worked, including any overtime incurred by staff during Fiscal Year 2025. A detailed breakdown of all audits and projects was shared, showing the hours spent by each individual. Additionally, the report included non-audit staff time expressed as a percentage of audit staff time. This is the first year such data has been tracked, with a combination of actual and estimated figures, and a process has been established to improve tracking going forward.

For audits involving other departments, audit staff logged a total of 4,255 hours, while non-audit staff contributed 1,287 hours—approximately 30% of the audit staff's time. This data was included at the request of the Audit Committee to provide a clearer picture of the total resource cost associated with each audit. Ms. Coffey also clarified that a negative value in the final line of the report indicates overtime worked by the employee.

c. ***Issued Reports and/or Memoranda:***

- i. Ms. Evans presented the Issued Report on the 2025-9 Review of the Accounts Payable Process. The audit covered invoices paid between July 2024 and March 2025, with a sample selected for testing. The audit identified one observation-level issue related to the timeliness of invoice payments—a known concern

previously noted in other audits. A long-term solution is currently in development and is expected to be implemented by June 2026.

Additionally, the audit identified three opportunities for improvement. Ms. Evans specifically highlighted item number three, which addresses the payment processing workflow. Ms. Evans explained the process of sending out checks and expressed appreciation to the Accounting team for their assistance in clarifying questions related to sample invoices.

Following the presentation, Ms. Hampton made a motion to accept the Issued Report on the 2025-9 Review of the Accounts Payable Process as presented. Mr. Cheatham seconded the motion.

During the discussion, Mr. Cheatham inquired about the status of transitioning to an ACH-style payment system. Mr. Lamb responded that this initiative is currently part of the department's planned priorities —not only for accounts payable but also for retiree payments under the KRS and CERS systems. He noted that over 1,000 checks are processed monthly for retirees and that Mr. Barrow has prioritized reducing or eliminating check payments.

Mr. Lamb further explained that vendor payments may offer a quicker path to ACH implementation, potentially by requiring ACH acceptance in future RFPs. However, this will involve coordination with both the internal procurement group and the state procurement office. While no formal timeline has been established, vendor payments are considered the most feasible starting point. Retiree payments present more complexity and will require additional time to evaluate. Mr. Cheatham acknowledged past issues with payment processing and expressed full support for efforts to expedite ACH adoption to prevent future problems.

Following the discussion, the motion passed unanimously.

- ii. Ms. Evans presented the Issued Report on the 2025-11 Review of the Accrual, which focused on seven distinct types of accruals completed during Fiscal Year

2025, as of March 2025. She noted that the detailed findings and scope of the audit are outlined in the COSO chart, which provides a comprehensive breakdown of the accrual types reviewed.

No findings or observations were identified during the audit. However, two opportunities for improvement were noted. Both items are previously known issues that are currently being addressed by the Chief Financial Officer.

Ms. Evans indicated there were no additional highlights for this report and once again expressed appreciation to the Accounting team for their time and support in explaining the accrual processes and assisting with questions related to the audit sample.

Mr. Fulkerson made a motion to accept the Issued Report on the 2025-11 Review of the Accrual Process as presented. Ms. Hampton seconded the motion. The motion passed unanimously.

Following the passing of the motion, Ms. Hampton invited Ms. Coffey to provide an update on the Internal Audit team's staffing status. Ms. Coffey reported that the team is now fully staffed, as their interim employee has transitioned to a full-time role. The department currently has four auditors actively engaged in ensuring audit processes are functioning effectively and efficiently.

9. Mr. O'Mara introduced the agenda item ***Professional Article*** (Video 00:47:36 to 00:52:32). Mr. Curtis provided a summary of the article, "Improper Payments: A New 2025 Green Book Risk Category," which highlights the inclusion of improper payments as a newly recognized risk category in the 2025 revision of the *Green Book*.

Ms. Eaves inquired whether KPPA carries any external insurance to cover fraudulent or improper payments, or if such risks are solely borne by KPPA and the trust fund. In response, Mr. Lamb explained that KPPA maintains a cyber insurance policy, which provides limited coverage in cases where an improper payment results from a cyber-related incident. Specifically, if a payment is made inaccurately due to social engineering or another form of cyber breach and the event falls within the scope of the cyber policy, some coverage may be available.



10. There being no further business, Mr. O'Mara *adjourned* the meeting.

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## CERTIFICATION

I do certify that I was present at this meeting, and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

  
Recording Secretary

I, as Chair of the Audit Committee of the Kentucky Public Pensions Authority, do certify that the Minutes of the meeting held on August 26, 2025, were approved by the Audit Committee on November 18, 2025.

  
Committee Chair

I have reviewed the Minutes of the Audit Committee Meeting on August 26, 2025, for form, content, and legality.

  
Executive Director  
Office of Legal Services